

Losing to the European Union: A Review of Yanis Varoufakis' Book "Adults in the Room"

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Yanis Varoufakis, Adults in the Room: My Battle with the European and American Deep Establishment (New York: Farrar, Straus and Giroux, 2017) hardback i-ix, 1-550.

Yanis Varoufakis' latest book is a detailed account of his time as Minister of Finance of Greece and his struggles with the Eurozone crisis, a period which he describes as 'the ruthless suppression of Greece's rebellion' (p. 1). Varoufakis' story is both absorbing and well told. His charisma is evident on every page as is his desire to set the record straight regarding his role in the collapse of the Greek economy. As is well known, Varoufakis was dismissed by Alexis Tsipras, the Greek Prime Minister, on the night of their Referendum triumph on July 5, 2015. The book casts light on the circumstances of this event, which seemed at the time entirely paradoxical. Over 60% of the electorate agreed with the Greek Government in rejecting a bailout deal. Varoufakis was the public face of this triumph. Why was he dismissed?

In this indiscreet and polemical account, Varoufakis offers a detailed and surprising answer. He reveals both the internal divisions but also the haphazard way in which Syriza, the party that Alexis Tsipras leads, operated at that time. Varoufakis claims that Tsipras called the Referendum in the hope that he would lose it. Unlike Varoufakis, who at that stage preferred Grexit, Tsipras believed that the government needed to compromise in order to avert a chaotic exit from the Eurozone. Tsipras could not bring himself to say so, however. For years he had told the electorate that austerity was not necessary, that it was the work of the corrupt and unpatriotic pro-European parties that created the crisis. His march to power was based on the theory that Greece was a victim of 'neo-liberal' forces and of scheming 'capitalist' foreigners. He could not admit that a compromise with them was a good thing after all. So he called the referendum. If the electorate capitulated, it would be them and not himself that would carry the blame.

After 'No' prevailed, Tsipras was faced with the task of contradicting his electorate as well as placating Greece's partners. This is why Varoufakis had to go, to make room for capitulation. On the basis of this episode and many other instances of panic and confusion Varoufakis calls the Greek leaders 'Donkeys leading Lions' (p. 448), admittedly with some justification. But how did Tsipras and Varoufakis's relationship come to this sordid end? Varoufakis gives a detailed account of a saga that gripped international public opinion two years ago, propelled him to international stardom and ended in economic and social disaster for the Greeks. The book is readable and interesting, even if it is full of the author's familiar hyperbolic statements. It will be of value to anyone with an interest the Eurozone crisis, and especially to British readers who are concerned about Brexit. The parallels between Varoufakis' ideologically motivated clash with the EU and the British government's similarly confrontational attitude with the EU are too obvious to miss.

The Seeds of Failure

Varoufakis refers to his time in office as 'Greek Spring' (p. 485) drawing parallels with Prague Spring. He considers the EU to be an undemocratic and oppressive organisation, just like the Soviet regime that crushed the Czech resistance. He also sees himself as a solitary champion for justice who alone stood tall against the EU's brute force and ruthlessness. But a careful reader will see that the narrative leads to a different conclusion. Varoufakis' failure was due to the fact that the Greek government he was serving did not have a clear plan, was constantly lying and never really understood how the EU works.

In the summer of 2014 Varoufakis was promised by Tsipras that he would have a say in Syriza's electoral manifesto. The promise was broken within weeks. Without consultation, Tsipras gave his major polic speech in September 2014, outlining Syriza's electoral promises. When he read it, Varoufakis writes, he was left

'gobsmacked' (p. 88). Tsipras promised the instant end of austerity, 'irrespective of the negotiations' with the creditors and announced an unprecedented giveaway in pensions, salary rises, subsidies and benefits. Varoufakis knew that these promises were empty, given Greece's precarious fiscal position, and immediately wrote an article saying so. He expected that his association with Tsipras would thus come to an end. But when the Syriza leadership contacted him next, he was told that all was fine. The speech did not include the real 'government policy', he was told, but was merely a 'rallying call for our troops' (p. 90). Varoufakis would still write the 'real' government policy when Syriza assumed power. Even on his own account (which until today has not been disputed by Syriza's leaders), Varoufakis knew that Tsipras was knowingly deceiving the electorate. This was a campaign of self-aware demagogues.

So when Varoufakis was persuaded to join in the Syriza campaign as a candidate, he did so with his eyes open. He easily won a seat representing Athens in the January 2015 parliamentary election. Soon, he was the minister of finance and one of the most powerful people in Greece. His task was now to give effect to the false promises that had earlier left him 'gobsmacked'. Whatever one thinks of Varoufakis' political career, it certainly did not start on the side of truth and justice.

The book's account gives a strikingly different impression of the European Union's leaders. Even though Varoufakis does not see it this way, the EU's leadership was always honest and direct with the Greek government. Its position was effectively the same from January to July. It was based solidly on the treaties, the secondary law and the agreements that Greece's earlier governments had already entered into with its creditors in 2010 and 2012. The treaties did not and do not permit the restructuring of official debt, nor do they permit the ECB to lend to the member states. It was a tough position, but not different to that applying to the other member of the Eurozone. Ireland, Portugal, Spain and Cyprus went through the same rules. They have, incidentally, all successfully returned to growth.

Extending or Escaping?

Tsipras became Prime Minister as the the EU/IMF adjustment programme was about to expire, at the end of February. This posed a tough dilemma to the new government. It had to decide quickly either to apply to extend the programme or allow it to lapse. Extending it would have meant that Greece would continue receiving financial assistance, but at the cost of accepting the existing terms of austerity. Allowing the programme to lapse would have meant loss of access to EU/IMF funding and to ECB support. The first casualty would be the Greek banking system, which at that stage was entirely dependent on 'Emergency Liquidity Assistance' from the European Central Bank (on the assumption that by following an adjustment programme, the Greek Government and the banks were in principle solvent). The end of the programme would entail a bank run and bankruptcy or the imposition of capital controls. Ultimately, this would, sooner or later, trigger a series of events that would probably force Greece out of the Eurozone.

In all his public statements Alexis Tsipras had said he would end the programme. In his first speech to Parliament after becoming Prime Minister he said that his Government 'does not have the right to seek the extension of the [programme], because it has no right to seek any extension to error and disaster'. Austerity was not necessary he had said again and again in his campaign. Austerity for Tsipras was only what Germany and the domestic oligarchs wanted, in order to serve their own corrupt interests. But at the same time, Tsipras had promised that Greece would stay in the Eurozone. How could he square this circle?

Varoufakis is now revealing their plan of action (at pp. 93-98). Their plan was to be more ruthless than their predecessors. Varoufakis wanted to threaten the Eurozone with three 'deterrent' steps or countermeasures that he thought could throw the Eurozone into an existential crisis: a) defaulting on the ('SMP') Greek bonds already held by the European Central Bank (which, Varoufakis thought, would unleash a fresh legal challenge in Germany against the OMT programme announced by the ECB), b) setting up a parallel electronic payments system based on tax receipts, which in the form of IOUs would serve as a unit of account for pensions and salaries and c) removing the independence of the Bank of Greece. Varoufakis was willing to gamble with these countermeasures, although he was aware of the danger that the confrontational strategy could fail. He knew that in case of failure Greece would be expelled from the Eurozone. But he thought – and apparently still believes – that a chaotic exit from the Euro would have been a somewhat better outcome to the 'debt prison' of the EU/IMF

adjustment programme that Syriza inherited from the pro-European parties. He was confident, however, that the EU would cave in to a determined Syriza government.

On the basis of this plan Tsipras decided to extend the programme and surprised external observers by accepting the existing terms of austerity. From Tsipras' point of view, it was not a capitulation, only a tactical retreat. His aim was to gain time, in order to set up Varoufakis' three deterrents. He and Tsipras agreed that this concession did not matter much, since they felt they could go back on their word later (pp. 292-293). It was a fatal miscalculation.

The Agreement of 20 February

The key to Varoufakis' ultimate failure lies in his agreement to extend the programme on February 20. He agreed that Greece would comply with all the existing bailout conditions, except if a mutually agreed alternative could be agreed (this was a standard term of flexibility of the programme from the start). The extension did not therefore change any of the terms of fiscal austerity. The new government agreed only to bring to the Eurogroup proposals for alternative savings or structural reforms, as long as they had the same effects. Debt relief was off the table, at least for this round of negotiations.

Immediately afterwards, Varoufakis embarked on a charm offensive seeking to persuade his counterparts that debt relief of some kind was essential for Greece. And here lies the most painful part of the book. At each Eurogroup meeting Varoufakis raised the same issue of debt relief in ever more complex ways, but each time the other ministers rebuffed him. They said to him that debt relief was off the table, at least for now. He tells the story of his repeated attempts to speak on debt relief and says that the other ministers treated him as if he was singing the 'Swedish national anthem' (p. 308). He still seems not to understand why. He even misunderstands their private expressions of sympathy that the programme perhaps could have been designed in a better way, with more generous debt relief than that offered to Greece in 2012. But their job – and everyone's job at the Eurogroup – was to implement the programme as agreed. Because the EU works with agreed rules, it was impossible to go back to the drawing board.

In retrospect it seems extraordinary, but Varoufakis was genuinely taken aback by the Eurogroup's reaction. He expected, it seems, that the EU would be prepared to start from an entirely clean slate and redrawing the terms of the programme. Varoufakis' surprise may well have been genuine, but it was based on ignorance. The European Monetary Union is not like the monetary union of the United States. There is no single decision maker, no single government and no single parliament making the decisions. Because everything is multilateral, agreements matter, and so does trust. The Greek bailout was a complex international agreement, involving the members of the Eurozone, the European Commission, the European Central Bank and the IMF. It was constructed with great care not to fall foul of the two prohibitions of the EU treaties: that of the ECB lending to states and that of states bailing each other out.

This is why, once agreed, the programme (like the Eurozone rules themselves) was relatively inflexible. Not even Mrs Merkel could change it on her own. Everything needs to respect the choreography of the treaties. This is why Varoufakis' persistent pursuit of debt relief against his own commitments and against the Eurogroup's agenda, was bound to fail. After two months of futile and acrimonious exchanges, the leaders of the Eurogroup demanded that he be dismissed after a particularly dismal couple of days in Riga. In late April, Tsipras replaced him as negotiator, but kept him on as finance minister.

The Nationalist Fever

How did the Greek electorate take the news of Tsipras' capitulation on February 20? Here we turn to one of the most important aspects of Varoufakis' tenure, on which – rather revealingly – he says absolutely nothing in the book.

Immediately after the agreement Tsipras and Varoufakis embarked on a campaign of misinformation as to its contents. They said that the Europeans had caved in, that the EU had extended its financial assistance for four more months, without demanding austerity, and that everything was now being renegotiated. For example, in his

speech to the Cabinet on 27 February Tsipras said:

'Our partners agreed the extension of the loan agreement with Greece, on the basis of our request. This means that they agreed the extension of the loan agreement without the 'memorandum' obligations, namely the austerity programme, which until yesterday was part of it. It has been proven, therefore, that Europe can move forward, when there is political will'.

Many other statements gave the same wholly untrue account of the agreement.

It is difficult to understand Tsipras' strategy. Wasn't this behaviour irrational? Was he not going to be found out, sooner or later? Readers unfamiliar with the Greek political landscape will probably read Varoufakis' book thinking that Syriza was a party with an economic agenda: the Keynesian agenda of avoiding austerity in a crisis (such as that promoted by Paul Krugman or Joseph Stiglitz). Those who follow Greek politics more closely, however, know that Syriza is something different. Syriza continues a tradition of anti-EU populism and nationalism that goes back to the 1980s and 1990s and opposed Western involvement in all of the Yugoslav wars (Croatia, Bosnia, Kosovo), as well as the Iraq and Afghanistan wars. Syriza's worldview believes that Greece is the victim of dark forces in the European Union and NATO that promote globalisation at the expense of ordinary people. This is why Syriza formed a coalition government with the far right party 'Independent Greeks', which is an ardent supporter of precisely this type of nationalist conspiracy theories. Varoufakis is clearly not proud of these associations and says little about them, but in order to understand why Tsipras acted the way he did, we need to understand how his domestic message was part of a nationalist propaganda campaign.

Tsipras wanted to paint his political opponents as not patriotic enough, as weaklings or traitors, confirming his pre-election rhetoric. By challenging their patriotism, he thought he would silence them. This is why he needed to create the impression, however transient, but enough to trigger the appropriate emotional reactions, that his tough and properly patriotic tactics were working. In one of his addresses to Parliament in March 2015 he said:

'The decision of February 20 recognised the need to open the debate on the restructuring of the Greek debt. ... And this is, dear members of parliament, the only strategy that can end austerity, that is to end the policy of the 'memorandum'. The other way is the unconditional surrender to the demands of the most extreme neoliberal centres [of power]. The abject surrender before those who have a personal or social interest in continuing the same policy that destroyed this land. And I want today to address directly the question to the parties of the Opposition. Are you going to support the national negotiation in order to stop austerity? Or are you going to continue to behave as a mouthpiece for the most extreme political and economic centres [of power] of Greece and Europe? As a mouthpiece for those who invented the 'Memorandum'? This is what is at stake today, the dilemma that needs to be answered'.

This is not a Keynesian economist speaking, but a nationalist demagogue. Tsipras used the deception about the agreement of 20 February in order to paint the opposition as the quislings that did not fight. This had indeed a paralysing effect on them. They could not dare challenge him for fear of being accused of undermining the 'national cause' and going against Tsipras 80% approval ratings (which disappeared only after his surrender in the summer). This is how in the end Tsipras won the referendum in July, with fake news, even though the banks were closed and capital controls had been imposed. The electorate was firm in its view that Tsipras was a patriot and that being nasty to the Europeans was working. It was a blatant and dishonest lie with tragic consequences.

Endgame

In the end, Tsipras failed to convince the Europeans to loosen the terms. Angela Merkel tried to intervene and broker some compromise, and so did the European Commission (episodes described in detail by Varoufakis).

But all to no avail. By using his customary nationalist rhetoric throughout this period, Tsipras made a compromise very difficult to achieve. In the end, Varoufakis reports that Tsipras' 'war cabinet' decided on April 27 not to use the 'deterrents' and to seek some kind of compromise (pp. 390-392). But it was too little, too late. The Greek government remained paralysed for two more months, while the banks haemorrhaged deposits. The German finance Minister Wolfgang Schäuble discussed with Varoufakis in May and again in June the possibility of an amicable divorce, with Greece taking a 'break' from the Euro. In late June, as the programme ended, Tsipras called the referendum in a desperate attempt for a way out. The banks were closed and capital controls were imposed, ironically, by way of a decree signed by Yanis Varoufakis, although the responsibility for this calamity lay squarely with Tsipras. Humiliated and having split his party (a third of which was demanding Grexit), the Prime Minister had to rely on the votes of the Opposition, that he had so brazenly accused of betrayal, in order to rescue the country from disaster and prevent the chaotic collapse of the economy that his actions had brought near. Greece agreed to a new – and immensely costly – bailout deal while the economy lay in ruins.

Varoufakis believes that this disaster was caused by Tsipras losing his nerve. He maintains that his 'deterrents' could have been effective in forcing the Eurozone's hand. In fact, Varoufakis' deterrents were all worthless, all for legal reasons that he has not taken into account. First, issuing a parallel currency (or payment system based on tax receipts) was contrary to the EU Treaties, which provide that monetary policy is an 'exclusive competence' of the EU for the members of the Eurozone. This means that anyone paid in a parallel currency would have had a valid claim against the Greek Government, enforceable in the Greek courts, to be paid in normal Euros. The introduction of this system would have entailed immediate legal chaos. Second, removing the independence of the Bank of Greece was also contrary to the EU treaties. Any attempt to change the Bank's independence would have instantly invited legal proceedings by the European Commission. Third, defaulting on the bonds held by the ECB would not have caused the legal domino that Varoufakis predicted. The legality of the ECB's sovereign bond purchases in the secondary markets was accepted by the Court of Justice in the full knowledge that there was a risk of default (in Case C62/14 *Gauweiler*). And in any event, Varoufakis' advice in 2014 to the Syriza leadership was wildly speculative and irresponsible. The relevant Court of Justice judgment (which in any event went contrary to Varoufakis' speculations) was issued in June 2015, one year after he first hatched his plan with Tsipras.

Varoufakis believes that his book's narrative exposes the European Union's deception and hostility to democracy. It does nothing of the sort. If anything, it provides evidence that the EU respects its own principles, even in moments of crisis. This is perhaps what should alarm those Brexiteers who hope to craft, like Varoufakis, a 'bespoke' deal to reflect some imaginary balance of power. The book, shows instead Tsipras and Varoufakis using subterfuge and deception at every stage in a futile attempt to force the EU to change its principles. As Varoufakis admits, he willingly teamed up with a demagogue who cynically manipulated his people. Their botched plan destroyed the Greek economy and significantly reduced the country's standing.

If Tsipras had followed Varoufakis' reckless and irresponsible advice all the way, it would have been worse. Greece would be outside the Eurozone, a rogue nation, angry, disorientated and poor, deceived by its leaders and abandoned by its friends. Varoufakis' actions brought economic and political disaster to his people, fueling nationalism and preventing real economic reform. For these terrible outcomes and for the lying to the Greek people, Varoufakis expresses no remorse.

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